

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF AU GRES	County ARENAC
Audit Date 6/30/04	Opinion Date 7/16/04	Date Accountant Report Submitted to State: 11/16/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ yes ☐ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) YEO & YEO, P.C.			
Street Address 3023 DAVENPORT	City SAGINAW	State MICHIGAN	ZIP 48605
Accountant Signature 			

CITY OF AU GRES
Au Gres, Michigan
Annual Financial Statements
and
Auditor's Report
June 30, 2004

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CITY OF AU GRES
List of Elected and Appointed Officials
June 30, 2004

CITY COUNCIL

LAVERN DITTENBER

THOMAS ENNES

ROBERT WOOLEVER

JIM DITTENBER

YVONNE SCHELL

MAYOR

MAYOR PRO-TEM

COUNCILMAN

COUNCILMAN

COUNCILWOMAN

OTHER OFFICERS AND OFFICIALS

PATRICIA KILLINGBECK

MARY FRESORGER

CITY MANAGER

CITY CLERK/TREASURER



3023 Davenport
Saginaw, MI 48602
Phone (989) 793-9830 / (800) 968-0010
Fax (989) 793-0186

Independent Auditors' Report

To the Honorable Mayor
and Members of the City Council
City of Au Gres
Au Gres, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Au Gres as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Au Gres as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City has implemented a new reporting model as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2004 on our consideration of the City of Au Gres internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management’s discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Au Gres’ basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Saginaw, Michigan

July 16, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Au Gres
Management's Discussion and Analysis
Year Ended June 30, 2004

Our discussion and analysis of the City of Au Gres' financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004.

The City completed the construction of the Community Library Building to end a 4 year contribution of City tax dollars via Capital Project Fund, to accomplish this project. In addition to contributions the City also assumed an additional \$10,000 operations liability for leasing and maintaining a temporary building to house the library. The City also completed a Coastal Zone Management Grant which financed a downtown riverwalk from the Pedestrian Bridge along the river on River Street to the new library.

A .5 millage approval by the Iosco-Arenac District Library in August 2004 will assist in library operations and eliminate this liability for 2005.

Total net assets related to the City's governmental activities are \$2,418,595. The unrestricted portion of net assets are \$1,365,932 (see table of net assets on the following page).

Tax revenues, the City's largest revenue source, declined by \$12,441 from 2003. This is the first decline the City has experienced in many years and is a direct result of Proposal A and penalty for uncapping of properties.

State shared revenues, our second largest revenue source, was reduced by about \$5,700 by the State of Michigan this year. In light of continuing State Budget Problems, and constant threat(s) to take away all revenue sharing, the City has reacted by invoking tighter controls over all expenditures. The result of the City taking these proactive measures in the area of expenditure control was an increase in general fund balance of \$52,255.

In 2004 the City's business-type activities, a new program was added – operations of State Harbor of Refuge Marina and Boat Launch facility. The City utilized its current staff, from City Parks and Recreation Department for oversight and management of the facility, and current financial/administration staff to handle day to day financial reporting. Six part time seasonal employees were hired to handle maintenance of both locations, admission and maintenance at the Boat Launch site and Marina and Harbor of Refuge operations.

This activity caused a strain on current staff due to the late contract with the State, late start-up, and many State mandated regulations that needed to be sorted through. This activity, while perceived as good economics for downtown business, resulted in a loss of revenues to the city finances.

City of Au Gres
Management's Discussion and Analysis
Year Ended June 30, 2004

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Au Gres as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing governmental services.

The fund financial statements present a short term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City of Au Gres as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

Table 1

	Governmental Activities 2004	Business-type Activities 2004	Total 2004
Current assets	\$ 4,040,619	\$ 5,015,419	\$ 9,056,038
Current and long term liabilities	<u>1,622,024</u>	<u>936,694</u>	<u>2,558,718</u>
Total net assets	<u>\$ 2,418,595</u>	<u>\$ 4,078,725</u>	<u>\$ 6,497,320</u>

City of Au Gres
Management's Discussion and Analysis
Year Ended June 30, 2004

City of Au Gres net assets of governmental activities are \$2,418,595 and \$4,078,725 for business type activities; of these amounts \$1,365,932 (governmental) and \$149,822 (business-type) are unrestricted assets.

Table 2

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue			
Charges for services	\$ 91,866	\$ 501,429	\$ 593,295
Operating grants and contributions	245,028	-	245,028
Capital grants and contributions	155,948	18,245	174,193
General revenue:			
Property taxes	340,252	-	340,252
State-shared revenue	182,618	-	182,618
Interest	10,071	3,430	13,501
Franchise fees and other revenue	23,657	(5,816)	17,841
Total revenue	<u>1,049,440</u>	<u>517,288</u>	<u>1,566,728</u>
Program expenses			
General government	179,213	-	179,213
Public safety	79,274	-	79,274
Public works	210,504	-	210,504
Health and welfare	50,550	-	50,550
Community and economic development	30,500	-	30,500
Recreation and culture	38,137	138,527	176,664
Interest on long-term debt	76,186	-	76,186
Water and sewer	-	587,242	587,242
Other	127,875	-	127,875
Total program expenses	<u>792,239</u>	<u>725,769</u>	<u>1,518,008</u>
Change in net assets	<u>\$ 257,201</u>	<u>\$ (208,481)</u>	<u>\$ 48,720</u>

**City of Au Gres
Management's Discussion and Analysis
Year Ended June 30, 2004**

Governmental Activities

The City of Au Gres' total governmental activity revenues were \$1,049,440. There was a slight decrease in State-shared revenue and property taxes.

Governmental activity expenditures of \$792,239 were recorded for the year. This included increases in health care costs and property and liability insurance rates. To offset this, the City closely monitored its spending in all other areas, including not replacing staff, and a freeze on capital projects and capital purchases.

Business Type Activities

The City of Au Gres business-type activity consists of Water Fund, Sewer Fund, Park fund and new this year, Municipal Marina (DNR) fund.

The City provides treated water to the city residents. Raw water is purchased from Saginaw-Midland Water Supply System. The City also provides water to approximately 40 Au Gres Township customers, along US 23 west of the City. The City has a revenue bond debt for recent system wide improvements. Fiscal year 2004 shows we had a decrease in volume of water sold from 2003.

The City also provides municipal sanitary sewer to its residents. In 2003/2004 the City retired the bond debt for the Waste Water Treatment Plant, which was constructed in 1991.

In 2004, the City increased the water and sewer rates, the first time since 1995. This rate increase did not take effect until the March 2004 billing. It is anticipated that rates will need to increase again for fiscal year 2005 to meet bond debt requirements and increased mandated requirements being passed by State and Federal legislation.

Another business activity is the City operated campground and recreation facility. This has been operated by the City for the past 50 years – operations were expanded recently with additional campsites, new bathhouse, etc. Since these additions the City has incurred additional utility expenses billed retroactive by Consumers Energy- this has caused a considerable strain on the budget and the City will need to increase lot rents in 2005 to keep pace with increases utility expense and payroll expense.

The City entered into a lease agreement with the State of Michigan to operate the Federal Harbor of Refuge, State Boat Docks, and the State Boat Launch. Due to late start up, additional start up costs, undesirable weather, the City experienced a loss in these operations.

**City of Au Gres
Management's Discussion and Analysis
Year Ended June 30, 2004**

City of Au Gres Funds

The fund financial statements provide detailed information about the most significant funds, not the City of Au Gres as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51, Major and Local Street funds for 2004. The Au Gres City governmental major funds include General Fund, Police, Major and Local Street Funds, Building Authority Debt Fund and Library Construction Fund.

a) General Fund

Functions relating to the general governmental activities of the City, which are financed by property tax levies, by distribution of State revenues from fees charged for various municipal activities and services are recorded in the General Fund. This fund had an increased fund balance of \$52,255 over 2003.

b) Major and Local Street Funds

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the local street system. The State requires that these expenditures be segregated into a Major Street component and a Local Street component. The city uses these fun improvements for the city street system, along with contributions from General Fund.

c) Police Fund

The Police Fund is funded through millage approved by the residents. The Au Gres-Sims Police Department is operated under a joint agreement between Sims Township and City of Au Gres – each unit contributes 50% of the Police Operating budget; the City's total contribution in 2004 was \$67, 481.

d) Building Authority Debt Fund

The Municipal Building Authority was established to finance and construct public buildings. The Au Gres – Sims Fire Authority provides an annual lease payment to cover the Building Authority bonded debt requirements.

e) Library Construction Fund

The City participated in a four year construction project to build a community library building.

**City of Au Gres
Management's Discussion and Analysis
Year Ended June 30, 2004**

General Fund Budgetary Highlights

Over the course of the year, the City Council and City administration monitor and amend the budget to account for unanticipated events during the year. The most significant change was a decrease in State shared revenue and tax revenue decrease. Prudent budgeting and continued monitoring of all expenditures reduced the effect of these State cuts. The City of Au Gres' departments overall stayed below budget, resulting in \$52,255. Expenditures were under budget primarily due to savings from personnel vacancies and capital projects delays.

Capital Asset and Debt Administration

At the end of 2004 the City of Au Gres has \$4,576,597 million invested in a wide range of capital assets, including land, buildings, equipment, computer equipment, and water and sewer lines. The value of the governmental infrastructure assets, net of depreciation contained in this report, is \$87,076 at the end of 2004. This is the first year of accounting governmental infrastructure assets, therefore amounts for streets and other infrastructures is from July 2003 forward. The City has seen a decline in bond debt, due to pay off of several bond issues; Downtown Waterline and Downtown Streetscape.

Debt reported in these financial statements is related to the construction of the above-mentioned infrastructure assets and buildings and is reported as a liability on the statement of net assets.

Economic Factors and Next Year's Budgets and Rates

The City of Au Gres' budget for next year calls for a minimal increase of 1.023 percent on property tax rates, based on the rate of inflation. Because of the impact of Proposal A, this increase will be minimal, if any. However, the City needs to continue to monitor its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than inflation, before considering new property additions. State revenue-sharing payments were decreased again this past year with the potential to decrease again due to State cutbacks and less sales tax receipts at the State level. These factors, coupled with recent decreases from historical norms in other revenues, including charges for services and interest on investments, continue to have a concern on the City's ability to balance its budget.

Despite these concerns, the City will continue to operate as efficiently as possible in the next fiscal year. Several personnel positions will remain vacant, with minimal capital spending budgeted for the next year. We expect continued annual increases in health care costs.

**City of Au Gres
Management's Discussion and Analysis
Year Ended June 30, 2004**

To encourage additional growth the City applied for Grant Funds from Michigan Economic Corporation to research Downtown Retail opportunities, to encourage additional retail spending, shopping and investment in the City.

Contacting the City of Au Gres' Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Au Gres' finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the administration offices at city hall.

BASIC FINANCIAL STATEMENTS

City of Au Gres
Statement of Net Assets
June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,383,005	\$ 152,286	\$ 1,535,291	\$ 281,327
Receivables (net)	336,044	52,195	388,239	14,541
Due from primary government	-	-	-	814
Internal balances	41,376	(41,376)	-	-
Due from other governmental units	-	1,411	1,411	-
Assets restricted by bond indentures	-	84,500	84,500	-
Capital assets (net)	2,280,194	4,766,403	7,046,597	-
Total assets	4,040,619	5,015,419	9,056,038	296,682
Liabilities				
Accounts payable	14,842	1,780	16,622	-
Accrued and other liabilities	-	12,914	12,914	-
Due to component unit	814	-	814	-
Noncurrent liabilities				
Due within one year	207,869	32,000	239,869	-
Due in more than one year	1,398,499	890,000	2,288,499	-
Total liabilities	1,622,024	936,694	2,558,718	-
Net Assets				
Invested in capital assets, net of related debt	732,194	3,844,403	4,576,597	-
Restricted for:				
Streets and highways	189,122	-	189,122	-
Debt service	74,741	84,500	159,241	-
Capital projects	56,606	-	56,606	-
Unrestricted	1,365,932	149,822	1,515,754	296,682
Total net assets	\$ 2,418,595	\$ 4,078,725	\$ 6,497,320	\$ 296,682

See Accompanying Notes to Financial Statements

City of Au Gres
Statement of Activities
For the Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	Component Units
Primary government								
Governmental activities								
General government	\$ 179,213	\$ 27,011	\$ -	\$ -	\$ (152,202)	\$ -	\$ (152,202)	\$ -
Public safety	79,274	-	-	-	(79,274)	-	(79,274)	-
Public works	210,504	11,352	-	-	(199,152)	-	(199,152)	-
Health and welfare	50,550	34,318	-	-	(16,232)	-	(16,232)	-
Community and economic development	30,500	-	-	-	(30,500)	-	(30,500)	-
Recreation and culture	38,137	-	-	155,948	117,811	-	117,811	-
Other	127,875	-	-	-	(127,875)	-	(127,875)	-
Interest on long-term debt	76,186	19,185	245,028	-	188,027	-	188,027	-
Total governmental activities	792,239	91,866	245,028	155,948	(299,397)	-	(299,397)	-
Business-type activities								
Sewer	291,568	188,332	-	8,245	-	(94,991)	(94,991)	-
Water	295,674	222,478	-	10,000	-	(63,196)	(63,196)	-
Recreation and culture	138,527	90,619	-	-	-	(47,908)	(47,908)	-
Total business-type activities	725,769	501,429	-	18,245	-	(206,095)	(206,095)	-
Total primary government	\$ 1,518,008	\$ 593,295	\$ 245,028	\$ 174,193	(299,397)	(206,095)	(505,492)	-
Component unit								
Tax Increment Financing Authority	\$ 474,682	\$ -	\$ 69,000	\$ -	-	-	-	(405,682)
General revenues								
Property taxes, levied for general purposes					332,681	-	332,681	743,390
Property taxes, levied for debt service					7,571	-	7,571	-
State shared revenue					182,618	-	182,618	-
Unrestricted investment earnings					10,071	3,430	13,501	1,215
Franchise fees					1,740	-	1,740	-
Miscellaneous					21,917	(5,816)	16,101	-
Total general revenues and transfers					556,598	(2,386)	554,212	744,605
Change in net assets					257,201	(208,481)	48,720	338,923
Net assets - beginning					2,161,394	4,287,206	6,448,600	(42,241)
Net assets - ending					\$ 2,418,595	\$ 4,078,725	\$ 6,497,320	\$ 296,682

See Accompanying Notes to Financial Statements

**City of Au Gres
Balance Sheet
Governmental Funds
June 30, 2004**

		Special Revenue Funds			
	General	Major Street	Local Street	Police	
Assets					
Cash and cash equivalents	\$ 671,783	\$ 78,080	\$ 84,370	\$ 35,071	
Receivables (net)	57,602	4,506	2,652	-	
Due from other funds	44,161	10,000	10,901	-	
Total assets	<u>\$ 773,546</u>	<u>\$ 92,586</u>	<u>\$ 97,923</u>	<u>\$ 35,071</u>	
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$ 14,173	\$ -	\$ -	\$ -	
Due to component unit	-	-	-	-	
Due to other funds	-	901	486	-	
Deferred revenue	16,813	-	-	-	
Total liabilities	<u>30,986</u>	<u>901</u>	<u>486</u>	<u>-</u>	
Fund Balance					
Reserved for					
Debt service	-	-	-	-	
Capital projects	-	-	-	-	
Unreserved					
Designated for special projects	138,000	-	-	-	
Other undesignated	604,560	91,685	97,437	35,071	
Total fund balance	<u>742,560</u>	<u>91,685</u>	<u>97,437</u>	<u>35,071</u>	
Total liabilities and fund balance	<u>\$ 773,546</u>	<u>\$ 92,586</u>	<u>\$ 97,923</u>	<u>\$ 35,071</u>	

See Accompanying Notes to Financial Statements

City of Au Gres
Balance Sheet
Governmental Funds
June 30, 2004

	Debt Fund <u>Building Authority</u>	Capital Project Fund <u>Library Construction</u>	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 29,147	\$ 64,499	\$ 348,253	\$ 1,311,203
Receivables (net)	100,000	28,303	142,981	336,044
Due from other funds	-	-	-	65,062
	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,062</u>
Total assets	<u>\$ 129,147</u>	<u>\$ 92,802</u>	<u>\$ 491,234</u>	<u>\$ 1,712,309</u>
Liabilities and Fund Balance				
Liabilities				
Accounts payable	\$ -	\$ 669	\$ -	\$ 14,842
Due to component unit	-	-	814	814
Due to other funds	-	-	20,000	21,387
Deferred revenue	<u>100,000</u>	<u>28,303</u>	<u>142,981</u>	<u>288,097</u>
Total liabilities	<u>100,000</u>	<u>28,972</u>	<u>163,795</u>	<u>325,140</u>
Fund Balance				
Reserved for				
Debt service	-	-	74,741	74,741
Capital projects	-	28,303	-	28,303
Unreserved				
Designated for special projects	-	35,527	252,698	426,225
Other undesignated	<u>29,147</u>	<u>-</u>	<u>-</u>	<u>857,900</u>
Total fund balance	<u>29,147</u>	<u>63,830</u>	<u>327,439</u>	<u>1,387,169</u>
Total liabilities and fund balance	<u>\$ 129,147</u>	<u>\$ 92,802</u>	<u>\$ 491,234</u>	<u>\$ 1,712,309</u>

See Accompanying Notes to Financial Statements

City of Au Gres
Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Assets
June 30, 2004

Total fund balances for governmental funds			\$ 1,387,169
Total net assets reported for governmental activities in the statement of net assets is different because:			
Deferred state shared revenue	\$	16,813	
Deferred special assessments		142,981	
Deferred grants		28,303	
Deferred financing leases		<u>100,000</u>	288,097
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			2,073,597
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets.			
Balances as of June 30, 2004 are as follows:			
Bonds payable		(1,436,000)	
Accrued interest payable		(34,963)	
Compensated absences payable		<u>(22,150)</u>	(1,493,113)
Internal service funds are used by management to charge the cost of equipment to individual funds. Certain assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.			<u>162,845</u>
Net assets of governmental activities			<u>\$ 2,418,595</u>

City of Au Gres
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2004

		Special Revenue Funds		
	General	Major Street	Local Street	Police
Revenues				
Taxes and penalties	\$ 267,467	\$ -	\$ -	\$ 65,214
Licenses and permits	1,740	-	-	-
Federal grants	-	-	-	-
State grants	94,308	54,902	32,203	2,314
Charges for services	61,329	9,463	1,889	-
Interest and rentals	4,369	682	137	268
Other revenue	5,541	2,000	728	7,278
Total revenues	<u>434,754</u>	<u>67,047</u>	<u>34,957</u>	<u>75,074</u>
Expenditures				
Current				
General government	160,264	-	-	-
Public safety	3,753	-	-	67,481
Public works	48,343	32,643	27,016	-
Health and welfare	50,550	-	-	-
Recreation and culture	10,121	-	-	-
Other	105,882	7,000	7,000	-
Capital outlay	3,586	-	-	-
Debt service	-	-	-	-
Total expenditures	<u>382,499</u>	<u>39,643</u>	<u>34,016</u>	<u>67,481</u>
Excess of revenues over expenditures	<u>52,255</u>	<u>27,404</u>	<u>941</u>	<u>7,593</u>
Other financing sources (uses)				
Transfers in	-	-	10,980	-
Transfers out	-	(10,980)	-	-
Total other financing sources and uses	<u>-</u>	<u>(10,980)</u>	<u>10,980</u>	<u>-</u>
Net change in fund balance	52,255	16,424	11,921	7,593
Prior period adjustment	-	10,000	10,000	-
Fund balance - beginning	<u>690,305</u>	<u>65,261</u>	<u>75,516</u>	<u>27,478</u>
Fund balance - ending	<u>\$ 742,560</u>	<u>\$ 91,685</u>	<u>\$ 97,437</u>	<u>\$ 35,071</u>

See Accompanying Notes to Financial Statements

City of Au Gres
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2004

	Debt Fund Building Authority	Capital Projects Fund Library Construction	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes and penalties	\$ -	\$ -	\$ 7,571	\$ 340,252
Licenses and permits	-	-	-	1,740
Federal grants	-	24,684	-	24,684
State grants	-	-	-	183,727
Charges for services	-	-	39,117	111,798
Interest and rentals	30,354	816	3,356	39,982
Other revenue	-	85,302	20,732	121,581
Total revenues	<u>30,354</u>	<u>110,802</u>	<u>70,776</u>	<u>823,764</u>
Expenditures				
Current				
General government	-	-	-	160,264
Public safety	-	-	-	71,234
Public works	-	-	-	108,002
Health and welfare	-	-	-	50,550
Recreation and culture	-	-	-	10,121
Other	-	-	30,500	150,382
Capital outlay	-	238,218	84,521	326,325
Debt service	30,900	-	19,748	50,648
Total expenditures	<u>30,900</u>	<u>238,218</u>	<u>134,769</u>	<u>927,526</u>
Excess of revenues over expenditures	<u>(546)</u>	<u>(127,416)</u>	<u>(63,993)</u>	<u>(103,762)</u>
Other financing sources (uses)				
Transfers in	-	-	-	10,980
Transfers out	-	-	-	(10,980)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(546)	(127,416)	(63,993)	(103,762)
Prior period adjustment	-	-	(20,000)	-
Fund balance - beginning	<u>29,693</u>	<u>191,246</u>	<u>411,432</u>	<u>1,490,931</u>
Fund balance - ending	<u>\$ 29,147</u>	<u>\$ 63,830</u>	<u>\$ 327,439</u>	<u>\$ 1,387,169</u>

See Accompanying Notes to Financial Statements

City of Au Gres
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
Year Ended June 30, 2004

		Primary Government
Net change in fund balances - total governmental funds		\$ (103,762)
Total change in net assets reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation expense	\$ (68,985)	
Capital outlay	<u>236,018</u>	167,033
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		
State shared revenue	(1,109)	
Special assessments	(25,732)	
Grant	28,303	
Financing lease	(25,000)	
Loss on disposal of equipment	<u>(1,039)</u>	(24,577)
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.		
Debt issued	-	
Repayments of long-term debt	<u>217,358</u>	217,358
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in compensated absences payable	(15,550)	
Change in accrued interest on bonds	<u>10,944</u>	(4,606)
Internal service funds are used by management to charge the cost of equipment to individual funds. Certain net revenue (expense) of internal service funds are included in governmental activities in the statement of activities		<u>5,755</u>
Change in net assets of governmental activities		<u><u>\$ 257,201</u></u>

See Accompanying Notes to Financial Statements

City of Au Gres
Statement of Net Assets
Proprietary Funds
June 30, 2004

	Business-type Activities - Enterprise Funds					Internal Service Funds
	Sewer	Water	Park	Other Business-type Fund DNR	Total	
Assets						
Current assets						
Cash and cash equivalents	\$ 69,529	\$ 9,520	\$ 60,248	\$ 12,989	\$ 152,286	\$ 71,802
Receivables (net)	25,274	26,921	-	-	52,195	-
Due from other governmental units	-	1,411	-	-	1,411	-
Total current assets	94,803	37,852	60,248	12,989	205,892	71,802
Noncurrent assets						
Restricted investments	30,500	54,000	-	-	84,500	-
Capital assets	2,455,802	2,139,024	171,577	-	4,766,403	206,597
Total noncurrent assets	2,486,302	2,193,024	171,577	-	4,850,903	206,597
Total assets	2,581,105	2,230,876	231,825	12,989	5,056,795	278,399
Liabilities						
Current liabilities						
Accounts payable	1,780	-	-	-	1,780	-
Accrued and other liabilities	2,250	10,664	-	-	12,914	-
Due to other funds	16,003	2,565	4,800	20,189	43,557	118
Current portion of noncurrent liabilities	20,000	12,000	-	-	32,000	17,906
Total current liabilities	40,033	25,229	4,800	20,189	90,251	18,024
Noncurrent liabilities						
Bonds, notes and loans payable	70,000	820,000	-	-	890,000	95,349
Total liabilities	110,033	845,229	4,800	20,189	980,251	113,373
Net Assets						
Invested in capital assets, net of related debt	2,365,802	1,307,024	171,577	-	3,844,403	93,342
Restricted for:						
Debt service	30,500	54,000	-	-	84,500	-
Unrestricted						
Designated for debt service	20,000	-	-	-	20,000	-
Other unrestricted	54,770	24,623	55,448	(7,200)	127,641	71,684
Total net assets	\$ 2,471,072	\$ 1,385,647	\$ 227,025	\$ (7,200)	4,076,544	\$ 165,026

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities

Net assets of business-type activities

2,181
\$ 4,078,725

See Accompanying Notes to Financial Statements

City of Au Gres
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds					
	Sewer	Water	Park	Other Business-type Fund DNR	Total	Internal Service Funds
Operating revenues						
Charges for service	\$ 186,830	\$ 196,260	\$ 83,064	\$ 7,523	\$ 473,677	\$ 43,994
Installation and other miscellaneous charges	1,502	26,218	-	32	27,752	11
Total operating revenues	188,332	222,478	83,064	7,555	501,429	44,005
Operating expenses						
Personnel services	117,790	96,488	59,345	10,910	284,533	9,124
Contractual services	11,105	11,386	4,235	-	26,726	960
Utilities	26,742	43,012	29,881	189	99,824	-
Repairs and maintenance	6,784	3,960	648	-	11,392	1,891
Other supplies and expenses	27,916	25,676	9,386	3,661	66,639	8,039
Depreciation	96,488	73,199	20,351	-	190,038	20,025
Total operating expenses	286,825	253,721	123,846	14,760	679,152	40,039
Operating income (loss)	(98,493)	(31,243)	(40,782)	(7,205)	(177,723)	3,966
Nonoperating revenues (expenses)						
Interest and investment revenue	1,831	976	618	5	3,430	889
Gain (loss) on disposal of assets	(7,451)	6,502	(4,867)	-	(5,816)	4,336
Interest expense	(5,735)	(43,063)	-	-	(48,798)	(1,255)
Total nonoperating revenues (expenses)	(11,355)	(35,585)	(4,249)	5	(51,184)	3,970
Income (loss) before contributions and transfers out	(109,848)	(66,828)	(45,031)	(7,200)	(228,907)	7,936
Capital contributions	8,245	10,000	-	-	18,245	-
Change in net assets	(101,603)	(56,828)	(45,031)	(7,200)	(210,662)	7,936
Net assets - beginning	2,572,675	1,442,475	272,056	-		157,090
Net assets - ending	\$ 2,471,072	\$ 1,385,647	\$ 227,025	\$ (7,200)		\$ 165,026

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities

2,181

Change in net assets of business-type activities

\$ (208,481)

City of Au Gres
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds					Internal Service Funds
	Sewer	Water	Park	DNR	Total	
Cash flows from operating activities						
Receipts from customers	\$ 189,068	\$ 218,290	\$ 83,064	\$ 7,555	\$ 497,977	\$ 11
Payments to suppliers	(72,447)	(84,034)	(44,150)	(3,850)	(204,481)	(10,890)
Payments to employees	(79,295)	(64,775)	(46,526)	(8,950)	(199,546)	(6,244)
Internal activity - payments to other funds	3,858	(790)	4,800	20,189	28,057	44,002
Other receipts (payments)	(38,495)	(31,713)	(12,819)	(1,960)	(84,987)	(2,880)
Net cash provided (used) by operating activities	<u>2,689</u>	<u>36,978</u>	<u>(15,631)</u>	<u>12,984</u>	<u>37,020</u>	<u>23,999</u>
Cash flows from capital and related financing activities						
Capital contributions	8,245	10,000	-	-	18,245	-
Proceeds from special assessments	9,437	-	-	-	9,437	-
Purchases of capital assets	(3,118)	-	-	-	(3,118)	(53,000)
Principal and interest paid on capital debt	(36,235)	(54,200)	-	-	(90,435)	-
Net cash used for capital and related financing activities	<u>(21,671)</u>	<u>(44,200)</u>	<u>-</u>	<u>-</u>	<u>(65,871)</u>	<u>(53,000)</u>
Cash flows from investing activities						
Interest revenue	<u>1,831</u>	<u>976</u>	<u>618</u>	<u>5</u>	<u>3,430</u>	<u>889</u>
Net increase (decrease) in cash and cash equivalents	(17,151)	(6,246)	(15,013)	12,989	(25,421)	(28,112)
Cash and cash equivalents - beginning of year	<u>86,680</u>	<u>15,766</u>	<u>75,261</u>	<u>-</u>	<u>177,707</u>	<u>99,914</u>
Cash and cash equivalents - end of year	<u>\$ 69,529</u>	<u>\$ 9,520</u>	<u>\$ 60,248</u>	<u>\$ 12,989</u>	<u>\$ 152,286</u>	<u>\$ 71,802</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities						
Operating income (loss)	\$ (98,493)	\$ (31,243)	\$ (40,782)	\$ (7,205)	\$ (177,723)	\$ 3,966
Adjustments to reconcile operating income to net cash provided by operating activities						
Depreciation expense	96,488	73,199	20,351	-	190,038	20,025
Change in assets and liabilities						
Receivables (net)	736	(4,265)	-	-	(3,529)	-
Due from other governmental units	-	77	-	-	77	-
Accounts payable	100	-	-	-	100	-
Due to other funds	<u>3,858</u>	<u>(790)</u>	<u>4,800</u>	<u>20,189</u>	<u>28,057</u>	<u>8</u>
Net cash provided (used) by operating activities	<u>\$ 2,689</u>	<u>\$ 36,978</u>	<u>\$ (15,631)</u>	<u>\$ 12,984</u>	<u>\$ 37,020</u>	<u>\$ 23,999</u>

Noncash investing, capital and financing activities

Capital lease obligations of \$112,000 were incurred when the Internal Service Fund entered into a lease to finance the acquisition of a street sweeper.

See Accompanying Notes to Financial Statements

City of Au Gres
Statement of Fiduciary Net Assets
June 30, 2004

	<u>Pension</u>	<u>Agency Funds</u>
Assets		
Cash	\$ -	\$ 512
Investments	<u>29,308</u>	<u>-</u>
Total assets	<u>29,308</u>	<u>512</u>
Liabilities		
Refunds payable and others	<u>-</u>	<u>\$ 512</u>
Net assets		
Held in trust for pension benefits	<u>\$ 29,308</u>	

See Accompanying Notes to Financial Statements

City of Au Gres
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Funds
Year Ended June 30, 2004

	<u>Pension</u>
Additions	
Contributions	
Employer	\$ 7,585
Plan members	574
Roll in	<u>412</u>
Total contributions	8,571
Investment income	<u>3,368</u>
Total additions	11,939
Deductions	
Benefits	<u>-</u>
Change in net assets	<u>11,939</u>
Net assets - beginning	14,200
Prior period adjustment	<u>3,169</u>
Net assets - beginning, as adjusted	<u>17,369</u>
Net assets - ending	<u><u>\$ 29,308</u></u>

See Accompanying Notes to Financial Statements

City of Au Gres
Notes to Financial Statements
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Au Gres conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Government-wide and fund financial statements

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, normally supported by taxes and inter-governmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major

individual governmental funds and the major enterprise funds are reported in separate columns in the fund financial statements.

Reporting entity

The City of Au Gres is governed by an elected five member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Blended component units

A blended component unit is a legally separate entity from the City, but is so intertwined with the City that it is in substance the same as the City. It is reported as part of the City and blended into the appropriate funds.

Building Authority – The City of Au Gres Building Authority is governed by a three member board appointed by the City Council. Although it is legally separate from the City, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings.

Discretely presented component units

A discretely presented component unit is an entity that is legally separate from the City, but for which the unit is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. They are presented within the "component unit" column of the government-wide financial statements.

City of Au Gres
Notes to Financial Statements
June 30, 2004

Tax Increment Financing Authority (TIFA) – The members of the governing board are appointed by the City Council. The Authority's budget is subject to approval by the City Council. TIFA does not issue any other form of financial statements except as contained in the City of Au Gres annual financial statements.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue, and charges for services. Sales taxes collected and held by the State at year end on behalf of the government also are recognized as revenue. Fines, permits, and parking meter revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The City reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major and Local Street Funds account for the resources of state gas and weight tax revenue that are restricted for use on Major and Local Streets.
- The Police Fund accounts for property taxes and other revenue that are restricted for providing police protection.
- The Building Authority Debt Service Fund records revenue and the payment of interest, principle and other expenditures on long term debt.
- The Library Construction Fund accounts for the financing and construction of the library.

The City reports the following Major Proprietary Funds:

- The Sewer Fund accounts for the cost of collection and treating waste waters.
- The Water Fund accounts for the costs of providing water services to City residents.

City of Au Gres
Notes to Financial Statements
June 30, 2004

- The Park Fund accounts for the costs of maintaining a park and recreation program.

Additionally, the City reports the following:

Internal Service Funds – The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

Pension Fund – The Pension Fund accounts for the activities of the defined contribution pension plan which accumulates resources for pension payments to qualified employees.

Agency Funds – The Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided (2) operating grants and contributions; and (3) capital grants and

contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds, relate to charges to customers for water sales and services, sewage disposal, park and harbor fees and charges. The Water and Sewer Fund also recognizes tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Connection fees intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of water, sewage disposal, operations and maintenance, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property tax revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2003 ad valorem tax is levied and collectible on July 1, 2003, and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the City of Au Gres is \$35,911,512 on which ad valorem taxes levy consisted of 12.4445 mills for operating purposes, 3.0613 for police protection services and 0.3554 for debt service. This resulted in \$261 thousand for operating expenses, \$64

City of Au Gres
Notes to Financial Statements
June 30, 2004

thousand and \$7.5 thousand for debt service, exclusive of any Michigan Tax Tribunal or Board of Review adjustments. These amounts are recognized in the respective General, Special Revenue and Debt Service Funds financial statements as tax revenue.

Assets, liabilities and net assets or equity

Cash and investments – The City has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of 3 months or less when acquired. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty. Shared pooled investment income is allocated to each fund based on its percentage of the balance in the pool.

Investments, including pension funds, are stated at fair value, (quoted market price or the best available estimate).

Receivables and payable – In general, outstanding balances between funds are reported as "due to/from other fund." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and prepaid items – Inventories are insignificant and are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted assets – Certain revenue bonds of the enterprise funds require amounts to be set aside for a bond reserve. These amounts have been classified as restricted investments.

Capital assets – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City began recording governmental infrastructure constructed on or after July 1, 2003 as allowed by GASB 34.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives.

Land improvements	10 to 20 years
Building and building improvements	25 to 40 years
Utility systems	25 to 40 years
Roads	25 years
Other infrastructure	20 to 40 years
Vehicles	5 to 10 years
Heavy duty equipment	20 to 40 years
Machinery and equipment	5 to 10 years

Compensated absences – Full time employees receive 10 sick days for each full year of service and can carry forward 75 days each year. The excess over 75 days will be paid one-half at each anniversary date. The City will also pay one-half of accumulated sick leave upon retirement or death. Other reasons for termination will not be reimbursed for accumulated sick leave. There is no contractual provision for payment of unused vacation. They may be used for

City of Au Gres
Notes to Financial Statements
June 30, 2004

vacation only. All sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for terminations as of year end.

Long-term obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative data

Comparative data is not included in the City's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund deficit

The City has accumulated a net assets deficit in the DNR Fund. The deficit is a result of start up costs and will be recovered through fees.

NOTE 3 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91 authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The governing body has designated one bank for deposit of local unit funds. The investment policy adopted by the Council authorized all of the investments allowable under Michigan law.

The pension trust funds are also authorized by Michigan Public Act 485 of 1996 (as amended) to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City of Au Gres deposits and investment policy are in accordance with statutory authority.

At year end, the City's deposits and investment were reported in the basic financial statements in the following categories:

City of Au Gres
Notes to Financial Statements
June 30, 2004

	Cash and Cash Equivalents	Investments	Restricted Investments
Governmental activities	\$ 1,383,005	\$ -	\$ -
Business-type activities	152,286	-	84,500
Fiduciary and Trust and Agency Funds	<u>512</u>	<u>29,308</u>	<u>-</u>
Total primary government	1,535,803	29,308	84,500
Component unit	<u>281,327</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,817,130</u>	<u>\$ 29,308</u>	<u>\$ 84,500</u>

The breakdown between deposits and investments is as follows:

	Primary Government	Component Unit
Bank deposits (checking and savings accounts, certificates of deposit)	\$ 1,620,203	\$ 281,327
Investments in securities, mutual funds and similar vehicles	29,308	-
Petty cash and cash on hand	<u>100</u>	<u>-</u>
Total	<u>\$ 1,649,611</u>	<u>\$ 281,327</u>

Deposits

At year end, the carrying amount of the City's and its component units deposits with financial institutions was \$1,901,530 and the bank balance was \$1,978,557. Of the bank balance, \$120,823 was covered by federal depository insurance and \$1,857,734 was uninsured and uncollateralized. Since the component unit participates in the City's common cash, the federal depository insurance is not specifically allocated to their balance.

Investments

City investments can be classified into three categories to give an indication of the level of risk assumed by the City. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agency in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agency in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

The City's pension investments of \$29,308 are in mutual funds which are not categorized because they are not evidenced by securities that are in physical or book entry form.

NOTE 4 - RECEIVABLES

Receivables as of year end for the government's individual major and nonmajor funds, and the internal service and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Major Street	Local Street	Building Authority	Library Construction	Sewer	Water	Nonmajor	Total
Taxes receivable	\$ 17,620	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,620
Accounts	18,442	-	-	-	-	25,274	26,921	-	70,637
Special assessments	-	-	-	-	-	-	-	142,981	142,981
Intergovernmental	71	4,506	2,652	-	-	-	-	-	7,229
Grant	-	-	-	-	28,303	-	-	-	28,303
Financing lease	-	-	-	100,000	-	-	-	-	100,000
Interest and other	<u>21,469</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,469</u>
Gross receivables	<u>\$ 57,602</u>	<u>\$ 4,506</u>	<u>\$ 2,652</u>	<u>\$ 100,000</u>	<u>\$ 28,303</u>	<u>\$ 25,274</u>	<u>\$ 26,921</u>	<u>\$ 142,981</u>	<u>\$ 388,239</u>
Due within one year	\$ 57,602	\$ 4,506	\$ 2,652	\$ 25,000	\$ 28,303	\$ 25,274	\$ 26,921	\$ 34,000	\$ 204,258
Due after one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>108,981</u>	<u>183,981</u>
	<u>\$ 57,602</u>	<u>\$ 4,506</u>	<u>\$ 2,652</u>	<u>\$ 100,000</u>	<u>\$ 28,303</u>	<u>\$ 25,274</u>	<u>\$ 26,921</u>	<u>\$ 142,981</u>	<u>\$ 388,239</u>

City of Au Gres
Notes to Financial Statements
June 30, 2004

The allowance for all receivables at year end is zero, because all is expected to be collected.

The Au Gres Municipal Building Authority lease with the Au Gres Sims Fire Authority is a direct financial lease. Fixed assets are recorded on the books of the lessee and a corresponding long-term liability is reflected in their accounting records. The lease receivable is reduced annually by lease payments received.

Total minimum lease payments receivable	\$ 112,375
Less: unearned finance charges	<u>12,375</u>
Net lease receivable	<u>\$ 100,000</u>

Future minimum lease payments are as follows:

Year Ended June 30,	
2005	\$ 30,500
2006	29,125
2007	<u>52,750</u>
	<u>\$ 112,375</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
State shared revenue	\$ 16,813	\$ -
Special assessments not yet due	142,981	-
Grants	-	28,303
Financing lease	<u>100,000</u>	<u>-</u>
Total	<u>\$ 259,794</u>	<u>\$ 28,303</u>

NOTE 5 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 368,450	\$ 25,000	\$ -	\$ 393,450
Construction in progress	<u>347,351</u>	<u>-</u>	<u>347,351</u>	<u>-</u>
Total assets not being depreciated	<u>715,801</u>	<u>25,000</u>	<u>347,351</u>	<u>393,450</u>
Capital assets being depreciated				
Buildings	743,555	466,597	-	1,210,152
Improvements other than buildings	270,000	-	-	270,000
Machinery and equipment	550,076	167,459	50,881	666,654
Roads	<u>-</u>	<u>89,313</u>	<u>-</u>	<u>89,313</u>
Capital assets being depreciated	<u>1,563,631</u>	<u>723,369</u>	<u>50,881</u>	<u>2,236,119</u>
Less accumulated depreciation for				
Buildings	22,363	22,363	-	44,726
Improvements other than buildings	18,000	18,000	-	36,000
Machinery and equipment	274,180	46,410	54,178	266,412
Roads	<u>-</u>	<u>2,237</u>	<u>-</u>	<u>2,237</u>
Accumulated depreciation	<u>314,543</u>	<u>89,010</u>	<u>54,178</u>	<u>349,375</u>
Net capital assets being depreciated	<u>1,249,088</u>	<u>634,359</u>	<u>(3,297)</u>	<u>1,886,744</u>
Governmental activities capital assets, net	<u>\$ 1,964,889</u>	<u>\$ 659,359</u>	<u>\$ 344,054</u>	<u>\$ 2,280,194</u>

City of Au Gres
Notes to Financial Statements
June 30, 2004

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 16,163	\$ -	\$ -	\$ 16,163
Capital assets being depreciated				
Buildings	32,088	-	-	32,088
Improvements other than buildings	305,782	-	-	305,782
Machinery and equipment	110,544	3,118	44,770	68,892
Distribution and collection systems	6,634,191	-	13,188	6,621,003
Capital assets being depreciated	7,082,605	3,118	57,958	7,027,765
Less accumulated depreciation for				
Buildings	23,483	1,936	-	25,419
Improvements other than buildings	129,655	15,289	-	144,944
Machinery and equipment	42,093	10,484	1,050	51,527
Distribution and collection systems	1,893,303	162,332	-	2,055,635
Accumulated depreciation	2,088,534	190,041	1,050	2,277,525
Net capital assets being depreciated	4,994,071	(186,923)	56,908	4,750,240
Business-type capital assets, net	\$ 5,010,234	\$ (186,923)	\$ 56,908	\$ 4,766,403

Depreciation expense was charged to programs of the primary government as follows:

Government activities

General government	\$ 6,795
Public safety	8,040
Public works	5,977
Recreation and culture	3,788
Internal service fund depreciation is charged to the various functions based on usage of the assets	9,011

Total governmental activities \$ 33,611

Business-type activities

Water	\$ 88,441
Sewer	73,199
Park	20,351
Internal service fund depreciation is charged to the various function based on usage of the assets	11,014

Total business-type activities \$193,005

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Due to/from other funds

Receivable Fund	Payable Fund	Amount	Purpose
General	Local Street	\$ 486	
	Sewer	16,003	
	Water	2,565	Reimbursement of
	Park	4,800	expenditures paid for by the
	DNR	20,189	General Fund
	Internal Service Fund	118	
Local Street	Major Street	901	
Major Street	Nonmajor Governmental Fund	10,000	Return of funds transferred
			prior year
Local Street	Nonmajor Governmental Fund	10,000	Return of funds transferred
			prior year
		<u>\$ 65,062</u>	

Due to/from primary government and component units

Receivable Entity	Payable Entity	Amount
Primary government	Component unit	
Nonmajor Governmental Funds	TIFA	<u>\$ 814</u>

Interfund transfers

	Transfers (Out) Major Street Fund	Purpose
Transfers In		
Local Street Fund	<u>\$ 10,980</u>	25% transfer of gas and weight taxes as allowed by Act 51

Other activities

The component unit (TIFA) expensed \$245,028 for debt service for the primary government. This is shown as a contribution under governmental activities on the government-wide statement of activities.

City of Au Gres
Notes to Financial Statements
June 30, 2004

NOTE 7 - LONG-TERM DEBT

The City issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the City) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity is summarized as follows:

	Maturity Dates	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities								
Special assessment bonds								
East Saginaw	10/1/07	5.40%	\$6,000	\$ 30,000	\$ -	\$ 6,000	\$ 24,000	\$ 6,000
Ashdale	10/1/07	4.95%	\$4,000 - \$5,000	21,000	-	4,000	17,000	4,000
1994	5/1/04	6.10%	\$55,000	55,000	-	55,000	-	-
1996	6/1/11	5.45 - 5.65%	\$45,000 - \$55,000	390,000	-	45,000	345,000	45,000
Building authority bonds	9/1/13	4.15 - 4.90%	\$50,000 - \$100,000	700,000	-	50,000	650,000	50,000
General obligation bonds								
1972 Sewage Disposal	1/10/10	5.00%	\$5,000 - \$6,000	40,000	-	5,000	35,000	5,000
1996	6/1/11	5.45 - 5.65%	\$45,000 - \$75,000	410,000	-	45,000	365,000	45,000
Installment purchase - vehicle	3/25/04	6.45%	\$7,358	7,358	-	7,358	-	-
Capitalized lease - sweeper	5/12/10	4.48%	\$16,651 - \$20,806	-	112,000	-	112,000	16,651
Accrued interest				45,907	-	10,944	34,963	34,963
Compensated absences				6,600	15,550	-	22,150	-
				<u>\$ 1,705,865</u>	<u>\$ 127,550</u>	<u>\$ 228,302</u>	<u>\$ 1,605,113</u>	<u>\$ 206,614</u>
Business-type activities								
Special assessment bonds								
1989 Sewer	3/1/04	7.35%	\$0	\$ 10,000	\$ -	\$ 10,000	\$ -	\$ -
Revenue bonds								
1995 Water	4/1/35	5.125%	\$12,000 - \$51,000	843,000	-	11,000	832,000	12,000
1989 Sewer	1/1/10	5.00%	\$10,000 - \$20,000	110,000	-	20,000	90,000	20,000
				<u>\$ 963,000</u>	<u>\$ -</u>	<u>\$ 41,000</u>	<u>\$ 922,000</u>	<u>\$ 32,000</u>
Componet unit								
Tax increment bonds	7/1/03	7.2%	\$150,000	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ -</u>

City of Au Gres
Notes to Financial Statements
June 30, 2004

Annual debt service requirements to maturity for the above bond obligations are as follows:

Year Ended June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 155,000	\$ 72,801	\$ 32,000	\$ 46,890
2006	181,000	64,912	32,000	45,275
2007	216,000	55,815	33,000	43,660
2008	167,000	44,817	33,000	41,994
2009	156,000	36,357	24,000	40,328
2010-2014	561,000	69,315	82,000	188,754
2015-2019	-	-	105,000	165,538
2020-2024	-	-	135,000	135,761
2025-2029	-	-	173,000	97,427
2030-2034	-	-	222,000	48,380
2035	-	-	51,000	2,614
Total	<u>\$ 1,436,000</u>	<u>\$ 344,017</u>	<u>\$ 922,000</u>	<u>\$ 856,621</u>

Capital leases

The government has entered into a lease agreement as lessee for financing the purchase of a street sweeper. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payment as of the inception date. The future minimum lease obligations and the net present value is as follows:

Year Ended June 30	
2005	\$ 21,392
2006	21,392
2007	21,392
2008	21,392
2009	21,392
2010	<u>21,392</u>
Total minimum lease payments	128,352
Less: amount representing interest	<u>16,352</u>
Present value	<u>\$ 112,000</u>

The asset acquired June 30, 2004 through a capital lease is as follows:	
Asset:	
Machinery and equipment	\$ 165,000
Less: accumulated depreciation	<u>-</u>
Total	<u>\$ 165,000</u>

NOTE 8 - RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The City of Au Gres is a member of the Michigan Municipal Liability and Property Pool. This pool provides for substantially all of the insurance needs of the City, including property, general liability, automobile and comprehensive crime coverage. Under most circumstances, the City's maximum loss per occurrence is limited as follows:

City of Au Gres
Notes to Financial Statements
June 30, 2004

<u>Type of Risk</u>	<u>Deductible Per Occurrence</u>
General liability	\$ 1,000
Auto physical damage	1,000
Property coverage	1,000

The City has purchased commercial insurance for all workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 9 - JOINTLY GOVERNED ORGANIZATIONS

Au Gres – Sims Fire Authority

The City of Au Gres is a member of an inter-governmental agreement to operate a joint fire authority with Sims and Au Gres Townships. The participating communities provide annual funding for its operations. During the current year, the City's portion was fulfilled through property taxes of \$34,493 for operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the year ended March 31, 2004 can be obtained from the administrative offices at: 201 N. Court, Au Gres, Michigan 48703.

Au Gres – Sims Police Board

The City of Au Gres is a member of a cooperation agreement with Sims Township. The participating communities provide annual funding for its operations. During the current year, the City contributed \$66,000 for its operations. The City is unaware of any

circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the year ended June 30, 2004 can be obtained from the administrative offices at P.O. Box 121, Au Gres, Michigan 48703.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Local governmental Unit participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers full time employees hired prior to 1996 of the City of Au Gres. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiations with the City's competitive bargaining units and requires a contribution from the employees of 0% of gross wages for both General and Police employees.

Annual Pension Costs – For year ended June 30, 2004, the City of Au Gres' annual pension cost of \$ 51,434 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumption used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. Both determined using

City of Au Gres
Notes to Financial Statements
June 30, 2004

techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2003 follows:

	2003	2002	2001
Annual pension cost	\$ 60,000	\$ 48,000	\$ 46,000
Percentage of APC contributed	100%	100%	100%
Net pension obligation	1,254,672	1,100,801	1,018,245
Actuarial value of assets	821,795	766,126	737,323
Actuarial accrued liability (AAL)	1,405,879	1,422,332	1,291,309
Unfunded AAL	584,084	656,206	553,986
Funded ratio	58%	54%	57%
Covered payroll	399,719	368,423	341,501
UAAL as a percentage of covered payroll	146%	296%	224%

Defined Contribution Pension Plan

The City of Au Gres Public Employee Retirement System (PERS) is a single-employer PERS that administers the City's defined contribution pension plan for its employees. The PERS prepares and distributes separate financial statements as required by state statute but its financial statements are also included as an expendable trust fund of the City of Au Gres. The City of Au Gres is the only nonemployee contributor to the pension plan. Certain employees are covered by the defined contribution pension plan. As of June 30, 2004, the pension plan's membership was three employees.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each

participant, and specifies how contribution to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. As established by state statute, all full-time municipal employees of the City must participate in the pension plan from the date they are hired. The City is required to contribute an amount equal to 6% of the employee's gross earnings.

NOTE 11 - PRIOR PERIOD ADJUSTMENT

A prior period adjustment has been reported in the governmental funds to return \$20,000 to the Major and Local Street Funds for construction to take place in a subsequent year.

NOTE 12 - ACCOUNTING AND REPORTING CHANGE

GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*. The City of Au Gres has applied the provisions of this statement and related GASB statements in the accompanying financial statements (including the notes to financial statements). The City has elected to implement both the general provisions of the statement and the prospective reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

City of Au Gres
Notes to Financial Statements
June 30, 2004

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds.
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (roads, bridges, etc.) not previously accounted for by the City as well as assets totaling approximately \$2,165,105 that would previously have been reported in the General Fixed Assets Account Group.
- Capital assets at July 1, 2003 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$257,502 to reflect the historical cost and accumulated depreciation of the City's capital assets at that date.
- The governmental activities column includes bonds and other long-term obligations totaling \$1,659,958 previously reported in the General Long-Term Debt Account Group. The component unit column includes bond obligations totaling \$150,000 previously reported in the General Long-Term Debt Account Group.

REQUIRED SUPPLEMENTAL INFORMATION

City of Au Gres
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2004

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes and penalties	\$ 279,908	\$ 279,908	\$ 267,467	\$ (12,441)
Licenses and permits	2,000	2,000	1,740	(260)
State grants	100,000	100,000	94,308	(5,692)
Charges for services	56,100	56,100	61,329	5,229
Interest and rentals	10,000	10,000	4,369	(5,631)
Other revenue	2,911	2,911	5,541	2,630
Total revenues	<u>450,919</u>	<u>450,919</u>	<u>434,754</u>	<u>(16,165)</u>
Expenditures				
Current				
General government	194,500	194,500	160,264	(34,236)
Public safety	5,000	5,000	3,753	(1,247)
Public works	79,400	79,400	48,343	(31,057)
Health and welfare	52,800	52,800	50,550	(2,250)
Recreation and culture	10,500	10,500	10,121	(379)
Other	150,900	150,900	105,882	(45,018)
Capital outlay	44,500	44,500	3,586	(40,914)
Total expenditures	<u>537,600</u>	<u>537,600</u>	<u>382,499</u>	<u>(155,101)</u>
Excess (deficiency) of revenues over expenditures	<u>(86,681)</u>	<u>(86,681)</u>	<u>52,255</u>	<u>138,936</u>
Other financing sources (uses)				
Transfers out	<u>(31,500)</u>	<u>(31,500)</u>	<u>-</u>	<u>31,500</u>
Net change in fund balance	<u>(118,181)</u>	<u>(118,181)</u>	<u>52,255</u>	<u>170,436</u>
Fund balance - beginning	<u>690,305</u>	<u>690,305</u>	<u>690,305</u>	<u>-</u>
Fund balance - ending	<u>\$ 572,124</u>	<u>\$ 572,124</u>	<u>\$ 742,560</u>	<u>\$ 170,436</u>

City of Au Gres
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
Year Ended June 30, 2004

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
State grants	\$ 42,000	\$ 42,000	\$ 54,902	\$ 12,902
Charges for services	9,400	9,400	9,463	63
Interest and rentals	1,100	1,100	682	(418)
Other revenue	2,000	2,000	2,000	-
Total revenues	<u>54,500</u>	<u>54,500</u>	<u>67,047</u>	<u>12,547</u>
Expenditures				
Current				
Public works	50,550	50,550	32,643	(17,907)
Other	7,000	7,000	7,000	-
Total expenditures	<u>57,550</u>	<u>57,550</u>	<u>39,643</u>	<u>(17,907)</u>
Excess (deficiency) of revenues over expenditures	(3,050)	(3,050)	27,404	30,454
Other financing sources (uses)				
Transfers out	<u>(11,000)</u>	<u>(11,000)</u>	<u>(10,980)</u>	<u>20</u>
Net change in fund balance	(14,050)	(14,050)	16,424	30,474
Prior period adjustment	-	-	10,000	10,000
Fund balance - beginning	<u>65,261</u>	<u>65,261</u>	<u>65,261</u>	<u>-</u>
Fund balance - ending	<u>\$ 51,211</u>	<u>\$ 51,211</u>	<u>\$ 91,685</u>	<u>\$ 40,474</u>

City of Au Gres
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State grants	\$ 26,000	\$ 26,000	\$ 32,203	\$ 6,203
Charges for services	2,000	2,000	1,889	(111)
Interest and rentals	1,300	1,300	137	(1,163)
Other revenue	-	-	728	728
Total revenues	<u>29,300</u>	<u>29,300</u>	<u>34,957</u>	<u>5,657</u>
Expenditures				
Current				
Public works	41,500	41,500	27,016	(14,484)
Other	<u>7,000</u>	<u>7,000</u>	<u>7,000</u>	<u>-</u>
Total expenditures	<u>48,500</u>	<u>48,500</u>	<u>34,016</u>	<u>(14,484)</u>
Excess (deficiency) of revenues over expenditures	(19,200)	(19,200)	941	20,141
Other financing sources				
Transfers in	<u>9,000</u>	<u>9,000</u>	<u>10,980</u>	<u>1,980</u>
Net change in fund balance	(10,200)	(10,200)	11,921	22,121
Prior period adjustment	-	-	10,000	10,000
Fund balance - beginning	<u>75,516</u>	<u>75,516</u>	<u>75,516</u>	<u>-</u>
Fund balance - ending	<u>\$ 65,316</u>	<u>\$ 65,316</u>	<u>\$ 97,437</u>	<u>\$ 32,121</u>

City of Au Gres
Required Supplemental Information
Budgetary Comparison Schedule
Police Fund
Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes and penalties	\$ 66,000	\$ 66,000	\$ 65,214	\$ (786)
State grants	2,000	2,000	2,314	314
Interest and rentals	800	800	268	(532)
Other revenue	<u>400</u>	<u>400</u>	<u>7,278</u>	<u>6,878</u>
Total revenues	<u>69,200</u>	<u>69,200</u>	<u>75,074</u>	<u>5,874</u>
Expenditures				
Current				
Public safety	<u>67,500</u>	<u>67,500</u>	<u>67,481</u>	<u>(19)</u>
Net change in fund balance	1,700	1,700	7,593	5,893
Fund balance - beginning	<u>27,478</u>	<u>27,478</u>	<u>27,478</u>	<u>-</u>
Fund balance - ending	<u>\$ 29,178</u>	<u>\$ 29,178</u>	<u>\$ 35,071</u>	<u>\$ 5,893</u>

OTHER SUPPLEMENTAL INFORMATION

City of Au Gres
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

	Debt Service Funds			Capital Projects Funds		Total Nonmajor Governmental Funds
	Special Assessment Bonds		General Obligation Sewer Bonds	Capital Projects	Library Building	
	E. Saginaw Street	Ashdale	1998 Improvements			
Assets						
Cash and cash equivalents	\$ 13,742	\$ 5,625	\$ 54,578	\$ 250,356	\$ 22,342	\$ 348,253
Receivables (net)	22,370	-	120,611	-	-	142,981
Total assets	\$ 36,112	\$ 5,625	\$ 175,189	\$ 250,356	\$ 22,342	\$ 491,234
Liabilities and Fund Balance						
Liabilities						
Due to component unit	\$ -	\$ -	\$ 814	\$ -	\$ -	\$ 814
Due to other funds	-	-	-	20,000	-	20,000
Deferred revenue	22,370	-	120,611	-	-	142,981
Total liabilities	22,370	-	121,425	20,000	-	163,795
Fund Balance						
Reserved for						
Debt service other purposes	13,742	5,625	53,764	-	-	74,741
Unreserved						
Designated for special projects	-	-	-	230,356	22,342	252,698
Total fund balance	13,742	5,625	53,764	230,356	22,342	327,439
Total liabilities and fund balance	\$ 36,112	\$ 5,625	\$ 175,189	\$ 250,356	\$ 22,342	\$ 491,234

City of Au Gres
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2004

	Debt Service Funds			Capital Projects Funds			
	Special Assessment Bonds		General	Capital	Library	Nonmajor	
	E. Saginaw	1998	Obligation				
	Street	Ashdale	Sewer	Projects	Building	Governmental	Funds
		Improvements	Bonds				
Revenues							
Taxes and penalties	\$ -	\$ -	\$ -	\$ 7,571	\$ -	\$ -	\$ 7,571
Charges for services	7,404	3,769	27,944	-	-	-	39,117
Interest and rentals	61	26	175	22	2,807	265	3,356
Other revenue	-	-	-	-	-	20,732	20,732
Total revenues	<u>7,465</u>	<u>3,795</u>	<u>28,119</u>	<u>7,593</u>	<u>2,807</u>	<u>20,997</u>	<u>70,776</u>
Expenditures							
Current							
Other	-	-	30,500	-	-	-	30,500
Capital outlay	-	-	-	-	79,993	4,528	84,521
Debt service	<u>7,458</u>	<u>5,290</u>	<u>-</u>	<u>7,000</u>	<u>-</u>	<u>-</u>	<u>19,748</u>
Total expenditures	<u>7,458</u>	<u>5,290</u>	<u>30,500</u>	<u>7,000</u>	<u>79,993</u>	<u>4,528</u>	<u>134,769</u>
Net change in fund balance	7	(1,495)	(2,381)	593	(77,186)	16,469	(63,993)
Prior period adjustment	-	-	-	-	(20,000)	-	(20,000)
Fund balance - beginning	<u>13,735</u>	<u>7,120</u>	<u>56,145</u>	<u>1,017</u>	<u>327,542</u>	<u>5,873</u>	<u>411,432</u>
Fund balance - ending	<u>\$ 13,742</u>	<u>\$ 5,625</u>	<u>\$ 53,764</u>	<u>\$ 1,610</u>	<u>\$ 230,356</u>	<u>\$ 22,342</u>	<u>\$ 327,439</u>

City of Au Gres
Other Supplemental Information
Schedule of Revenues Compared to Budget
General Fund
Year Ended June 30, 2004

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Taxes and penalties				
Property taxes	\$ 276,800	\$ 276,800	\$ 265,420	\$ (11,380)
Mobile home taxes	108	108	108	-
Interest and penalties	3,000	3,000	1,939	(1,061)
	<u>279,908</u>	<u>279,908</u>	<u>267,467</u>	<u>(12,441)</u>
Licenses and permits				
Cable franchise fees	2,000	2,000	1,740	(260)
State grants				
State shared revenue	100,000	100,000	94,308	(5,692)
Charges for services				
Waste removal	34,000	34,000	34,318	318
Administration fees	18,000	18,000	18,245	245
Other	4,100	4,100	8,766	4,666
	<u>56,100</u>	<u>56,100</u>	<u>61,329</u>	<u>5,229</u>
Interest and rentals				
Interest	10,000	10,000	4,369	(5,631)
Other revenue				
Other	2,911	2,911	5,541	2,630
Total revenues	<u>\$ 450,919</u>	<u>\$ 450,919</u>	<u>\$ 434,754</u>	<u>\$ (16,165)</u>

City of Au Gres
Other Supplemental Information
Schedule of Expenditures Compared to Budget
General Fund
Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
General government				
Legislative				
Fees	\$ 4,500	\$ 4,500	\$ 3,685	\$ (815)
Supplies	500	500	256	(244)
Transportation	500	500	637	137
Publishing	800	800	1,180	380
Subscriptions, dues and fees	<u>5,000</u>	<u>5,000</u>	<u>3,964</u>	<u>(1,036)</u>
	<u>11,300</u>	<u>11,300</u>	<u>9,722</u>	<u>(1,578)</u>
City Manager				
Salaries	18,000	18,000	15,980	(2,020)
Fringe benefits	7,000	7,000	9,129	2,129
Supplies	500	500	124	(376)
Transportation	300	300	-	(300)
Subscriptions, dues and fees	<u>4,000</u>	<u>4,000</u>	<u>1,715</u>	<u>(2,285)</u>
	<u>29,800</u>	<u>29,800</u>	<u>26,948</u>	<u>(2,852)</u>
Election				
Personnel	2,000	2,000	325	(1,675)
Supplies	600	600	1,054	454
Printing and publishing	<u>800</u>	<u>800</u>	<u>443</u>	<u>(357)</u>
	<u>3,400</u>	<u>3,400</u>	<u>1,822</u>	<u>(1,578)</u>

City of Au Gres
Other Supplemental Information
Schedule of Expenditures Compared to Budget
General Fund
Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Assessor				
Fees	\$ 22,000	\$ 22,000	\$ 20,735	\$ (1,265)
Supplies	3,000	3,000	778	(2,222)
Transportation	300	300	-	(300)
Subscriptions, dues and fees	1,000	1,000	40	(960)
	<u>26,300</u>	<u>26,300</u>	<u>21,553</u>	<u>(4,747)</u>
Legal services				
Contracted services	<u>7,000</u>	<u>7,000</u>	<u>3,285</u>	<u>(3,715)</u>
Administrative				
Salaries	23,000	23,000	20,322	(2,678)
Fringe benefits	8,000	8,000	8,762	762
Supplies	10,000	10,000	7,759	(2,241)
Contracted services	12,000	12,000	6,515	(5,485)
Transportation	300	300	19	(281)
Printing and publishing	600	600	938	338
Equipment maintenance	1,500	1,500	1,352	(148)
Equipment rental	1,600	1,600	1,500	(100)
Subscriptions, dues and fees	2,000	2,000	895	(1,105)
Training	300	300	-	(300)
	<u>59,300</u>	<u>59,300</u>	<u>48,062</u>	<u>(11,238)</u>

City of Au Gres
Other Supplemental Information
Schedule of Expenditures Compared to Budget
General Fund
Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Board of Review				
Fees	\$ 2,000	\$ 2,000	\$ 1,477	\$ (523)
Printing and publishing	400	400	80	(320)
	<u>2,400</u>	<u>2,400</u>	<u>1,557</u>	<u>(843)</u>
City building				
Salaries	2,100	2,100	1,956	(144)
Fringe benefits	400	400	362	(38)
Supplies	3,000	3,000	3,452	452
Other services and charges	3,300	3,300	3,212	(88)
Public utilities	<u>5,500</u>	<u>5,500</u>	<u>6,966</u>	<u>1,466</u>
	<u>14,300</u>	<u>14,300</u>	<u>15,948</u>	<u>1,648</u>
Other general government				
Other property	3,000	3,000	-	(3,000)
Cemetery	5,000	5,000	3,976	(1,024)
Telephone	4,000	4,000	3,299	(701)
Insurance and bonds	22,000	22,000	20,652	(1,348)
Equipment rental	2,500	2,500	2,309	(191)
Miscellaneous	<u>4,200</u>	<u>4,200</u>	<u>1,131</u>	<u>(3,069)</u>
	<u>40,700</u>	<u>40,700</u>	<u>31,367</u>	<u>(9,333)</u>
Total general government	<u>194,500</u>	<u>194,500</u>	<u>160,264</u>	<u>(34,236)</u>

City of Au Gres
Other Supplemental Information
Schedule of Expenditures Compared to Budget
General Fund
Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Public safety				
Professional services	\$ 3,500	\$ 3,500	\$ 3,215	\$ (285)
Printing and publishing	<u>1,500</u>	<u>1,500</u>	<u>538</u>	<u>(962)</u>
Total public safety	<u>5,000</u>	<u>5,000</u>	<u>3,753</u>	<u>(1,247)</u>
Public works				
Salaries	3,800	3,800	3,477	(323)
Fringe benefits	3,000	3,000	2,004	(996)
Supplies	1,700	1,700	1,481	(219)
Transportation	100	100	-	(100)
Tools	1,000	1,000	-	(1,000)
Public utilities	8,000	8,000	10,273	2,273
Repair and maintenance supplies	1,500	1,500	1,642	142
Ground maintenance	10,000	10,000	-	(10,000)
Other	300	300	-	(300)
Sidewalks	20,000	20,000	-	(20,000)
Street lighting	<u>30,000</u>	<u>30,000</u>	<u>29,466</u>	<u>(534)</u>
Total public works	<u>79,400</u>	<u>79,400</u>	<u>48,343</u>	<u>(31,057)</u>

City of Au Gres
Other Supplemental Information
Schedule of Expenditures Compared to Budget
General Fund
Year Ended June 30, 2004

	<u>Budgeted Amounts</u>			Actual Over (Under) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Health and welfare				
Sanitation				
Landfill	\$ 1,500	\$ 1,500	\$ 884	\$ (616)
Trash pick up	33,000	33,000	31,366	(1,634)
	<u>34,500</u>	<u>34,500</u>	<u>32,250</u>	<u>(2,250)</u>
Hydrant rental	18,300	18,300	18,300	-
	<u>52,800</u>	<u>52,800</u>	<u>50,550</u>	<u>(2,250)</u>
Total health and welfare				
Cultural				
Library	10,000	10,000	9,621	(379)
Arenac Historical Museum	500	500	500	-
	<u>10,500</u>	<u>10,500</u>	<u>10,121</u>	<u>(379)</u>
Other				
Employee benefits	62,300	62,300	61,843	(457)
General dues, subscriptions, etc.	3,500	3,500	5,536	2,036
General Fund contingency	48,500	48,500	-	(48,500)
Community promotion	10,000	10,000	10,536	536
Beautification project	4,000	4,000	5,410	1,410
Vehicle lease	7,600	7,600	7,557	(43)
Tax Increment Financing Authority	15,000	15,000	15,000	-
	<u>150,900</u>	<u>150,900</u>	<u>105,882</u>	<u>(45,018)</u>

City of Au Gres
Other Supplemental Information
Schedule of Expenditures Compared to Budget
General Fund
Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Capital outlay				
Legislative - equipment	\$ 1,000	\$ 1,000	\$ -	\$ (1,000)
City manager - equipment	2,000	2,000	50	(1,950)
Administrative - equipment	7,000	7,000	3,536	(3,464)
City building - equipment	4,500	4,500	-	(4,500)
Capital outlay	<u>30,000</u>	<u>30,000</u>	<u>-</u>	<u>(30,000)</u>
	<u>44,500</u>	<u>44,500</u>	<u>3,586</u>	<u>(40,914)</u>
Transfers to other funds				
Debt Service Fund	1,500	1,500	-	(1,500)
Capital Projects	<u>30,000</u>	<u>30,000</u>	<u>-</u>	<u>(30,000)</u>
	<u>31,500</u>	<u>31,500</u>	<u>-</u>	<u>(31,500)</u>
Total expenditures and transfers to other funds	<u>\$ 569,100</u>	<u>\$ 569,100</u>	<u>\$ 382,499</u>	<u>\$ (186,601)</u>

City of Au Gres
Other Supplemental Information
Budgetary Comparison Schedule
Component Unit - Tax Increment Financing Authority
Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes and penalties	\$ 730,000	\$ 730,000	\$ 743,390	\$ 13,390
Interest and rentals	2,500	2,500	1,215	(1,285)
Other revenue	59,500	59,500	69,000	9,500
Total revenues	<u>792,000</u>	<u>792,000</u>	<u>813,605</u>	<u>21,605</u>
Expenditures				
Current				
Community and economic development	57,000	57,000	58,444	1,444
Other	167,000	167,000	51,438	(115,562)
Capital outlay	190,000	190,000	114,372	(75,628)
Debt	400,428	400,428	400,428	-
Total expenditures	<u>814,428</u>	<u>814,428</u>	<u>624,682</u>	<u>(189,746)</u>
Net change in fund balance	(22,428)	(22,428)	188,923	211,351
Fund balance - beginning	<u>107,759</u>	<u>107,759</u>	<u>107,759</u>	<u>-</u>
Fund balance - ending	<u>\$ 85,331</u>	<u>\$ 85,331</u>	<u>\$ 296,682</u>	<u>\$ 211,351</u>

City of Au Gres
Other Supplemental Information
Schedule of Indebtedness
June 30, 2004

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Outstanding June 30, 2004</u>
Governmental Activities				
Special Assessment Bonds				
East Saginaw Street				
Date of issue 6/1/93:				
amount of issue \$ 91,000	5.40	10/1/04-07	\$ 6,000	<u>\$ 24,000</u>
Special Assessment Bond Series 1998				
Ashdale				
Date of issue 10/01/98;				
amount of issue \$ 41,000	4.95	10/1/04-06	4,000	12,000
		10/1/07	5,000	<u>5,000</u>
				<u>17,000</u>
Special Assessment Bonds Series 1996				
Date of issue 9/1/96: amount of issue \$ 705,000	5.45	06/01/05	45,000	45,000
	5.50	06/01/06	45,000	45,000
	5.55	06/01/07	50,000	50,000
	5.55	06/01/08	50,000	50,000
	5.60	06/01/09	50,000	50,000
	5.60	06/01/10	50,000	50,000
	5.65	06/01/11	55,000	<u>55,000</u>
				<u>345,000</u>

City of Au Gres
Other Supplemental Information
Schedule of Indebtedness
June 30, 2004

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Outstanding June 30, 2004</u>
Building Authority Bonds Series 1998				
Date of issue 2/1/97: amount of issue \$ 275,000	4.70 %	07/01/04	\$ 25,000	\$ 25,000
	4.80	07/01/05	25,000	25,000
	4.90	07/01/06	50,000	50,000
				<u>100,000</u>
Building Authority Revenue Bonds 1998				
Date of issue 3/1/99: amount of issue \$ 675,000	4.15	09/01/04	25,000	25,000
	4.25	09/01/05	50,000	50,000
	4.35	09/01/06	50,000	50,000
	4.40	09/01/07	50,000	50,000
	4.45	09/01/08	50,000	50,000
	4.50	09/01/09	50,000	50,000
	4.55	09/01/10	50,000	50,000
	4.60	09/01/11	75,000	75,000
	4.65	09/01/12	75,000	75,000
	4.70	09/01/13	75,000	75,000
				<u>550,000</u>
General Obligation Sewage Disposal System Bonds				
Date of issue 1/28/72;				
amount of issue \$ 150,000	5.00 %	1/1/05	5,000	5,000
		1/1/06-10	6,000	30,000
				<u>35,000</u>

City of Au Gres
Other Supplemental Information
Schedule of Indebtedness
June 30, 2004

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Outstanding June 30, 2004</u>
General Obligation Limited Tax Bonds, Series 1996				
Date of issue 9/1/96				
amount of issue \$ 725,000	5.45 %	06/01/05	\$ 45,000	\$ 45,000
	5.50	06/01/06	45,000	45,000
	5.55	06/01/07	50,000	50,000
	5.55	06/01/08	50,000	50,000
	5.60	06/01/09	50,000	50,000
	5.60	06/01/10	50,000	50,000
	5.65	06/01/11	75,000	75,000
				<u>365,000</u>
2004 lease purchase agreement - Street Sweeper				
Date of agreement : June 8, 2004				
Amount of lease payable: \$112,000				
Quarterly payments of \$5,348	4.48 %	2004-05	16,651	16,651
		2005-06	17,409	17,409
		2006-07	18,203	18,203
		2007-08	19,032	19,032
		2008-09	19,899	19,899
		2009-10	20,806	20,806
				<u>112,000</u>
Accrued interest				36,218
Compensated absences				<u>22,150</u>
Total governmental activities				<u>1,606,368</u>

City of Au Gres
Other Supplemental Information
Schedule of Indebtedness
June 30, 2004

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Outstanding June 30, 2004</u>
Business-type Activates				
Water Revenue Bond				
Date of issue 05/24/95;				
amount of issue \$ 913,000	5.125 %	4/1/05-06	\$ 12,000	\$ 24,000
		4/1/07-08	13,000	26,000
		4/1/09	14,000	14,000
		4/1/10	15,000	15,000
		4/1/11-12	16,000	32,000
		4/1/13	17,000	17,000
		4/1/14	18,000	18,000
		4/1/15	19,000	19,000
		4/1/16	20,000	20,000
		4/1/17	21,000	21,000
		4/1/18	22,000	22,000
		4/1/19	23,000	23,000
		4/1/20	24,000	24,000
		4/1/21	26,000	26,000
		4/1/22	27,000	27,000
		4/1/23	28,000	28,000
		4/1/24	30,000	30,000
		4/1/25	31,000	31,000
		4/1/26	33,000	33,000
		4/1/27	35,000	35,000
		4/1/28	36,000	36,000
		4/1/29	38,000	38,000
		4/1/30	40,000	40,000
		4/1/31	42,000	42,000
		4/1/32	44,000	44,000
		4/1/33	47,000	47,000
		4/1/34	49,000	49,000
		4/1/35	51,000	51,000
				<u>832,000</u>

City of Au Gres
Other Supplemental Information
Schedule of Indebtedness
June 30, 2004

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Outstanding June 30, 2004</u>
Sewer Revenue Bonds				
Date of issue 1/1/74;				
amount of issue \$ 450,000	5.00 %	1/1/05-08 1/1/09	\$ 20,000 10,000	\$ 80,000 <u>10,000</u>
				<u>90,000</u>
Total business-type activities				<u>922,000</u>
Total indebtedness				<u><u>\$ 2,528,368</u></u>



3023 Davenport
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Fax (989) 793-0186

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor
and Members of the City Council
City of Au Gres, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Au Gres as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 16, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Au Gres' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Au Gres' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan
July 16, 2004



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July 16, 2004

To the City Council
City of Au Gres
Au Gres, Michigan

In planning and performing our audit of the financial statements of City of Au Gres for the year ended June 30, 2004, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

However, during our engagement, we became aware of a few items that offer an opportunity to strengthen internal controls and operating efficiency. We would like to share these matters with you and offer our recommendation.

VOID CHECKS

During the audit, we noted checks that had been voided but not defaced or otherwise rendered unusable. This creates a potential for someone who can gain access to the check to misappropriate cash by completing the data on the check for fraudulent purposes. To reduce this risk, we recommend that all voided checks have the signature line torn off to ensure that they could not be improperly completed and cashed.

DECENTRALIZED ACCOUNTS

At the current time there is no outside oversight of the handling of park receipts. In addition to matching receipts with park deposits, the sequence of receipt numbers used should be accounted for. Gaps in sequence should be investigated to verify that deposits are complete.

CANCELLED CHECKS

As a result of a change in banking law, the City will no longer receive cancelled checks along with bank statements. Images of checks will be available with the bank statements and/or on-line. We recommend that someone other than the individual performing the bank reconciliation receive the bank statements unopened and monitor cancelled checks for alterations and unexpected or unusual endorsements. Any irregularities should be investigated immediately.

This report is intended solely for the use of management and should not be used for any other purpose.

We appreciate the opportunity to provide services to the City. Should you have any questions on the above, please feel free to contact us.

Very truly yours,

YEO & YEO, P.C.
CPAs and Business Consultants

Mari McKenzie